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USMISSION EC BRUSSELS

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 03530

LIMDIS GREENBACK

DEPARTMENT PASS FRB AND TREASURY FOR S.Y.CROSS AND F.L.
WIDMAN

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: U.K. VIEWS ON C-20 DEPUTIES MEETING - MARCH 27-

29

SUMMARY: U.K. TREASURY AND BANK OF ENGLAND OFFICIALS WHO
WILL ATTEND NEXT WEEK'S C-20 DEPUTIES MEETING HAVE
BRIEFED TREASURY REPRESENTATIVES ON HOW THEY SEE
POSSIBLE OUTCOME. ON BALANCE THEY CONSIDER CHAIR-
MAN MORSE TOO OPTIMISTIC IN HIS HOPES FOR FURTHER
ACCOMPLISHMENT. U.K. IF ANYTHING IS SLIGHTLY PESSIMISTIC.
IT CONSIDERS THAT LITTLE PROGRESS WILL BE MADE BEYOND
AGREEMENTS REACHED AT C-20 MINISTERS' MEETING IN ROME
LAST JANUARY. END SUMMARY.

1. BANK OF ENGLAND AND H.M. TREASURY OFFICIALS WHO WILL
PARTICIPATE IN MARCH 27-29 MEETING CONSIDER THAT
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CHAIRMAN MORSE'S AGENDA IS OVERLY OPTIMISTIC. U.K.

OFFICIALS ON BALANCE CONSIDER THAT JANUARY MINISTERIAL MEETING WITH AGREEMENTS IN PRINCIPLE ON VALUATION AND YIELD FOR SDR, STRUCTURE OF IMF, DISCUSSION OF CONDITIONS AND RULES FOR FLOATING AND WITTEVEEN'S PROPOSAL FOR NEW IMF FACILITY PROBABLY IDENTIFIED POINTS ON WHICH AGREEMENT IS POSSIBLE. THEY DO NOT ANTICIPATE MUCH PROGRESS BEYOND WHAT HAS ALREADY BEEN AGREED. TO SOME EXTENT, THEY QUESTION RELEVANCE OF THE EXERCISE IN CURRENT ENERGY CRISIS SITUATION. THEY SEE NO HOPE OF PROGRESS TOWARDS A NEW PAR VALUE SYSTEM.

2. U.K. TREASURY OFFICIAL SAID HE WOULD NOT BE SURPRISED IF PRACTICAL OUTCOME OF FORTHCOMING C-20 MEETINGS THROUGH JUNE WOULD BE TO SHELVE OR LEAVE WORK IN ABEYANCE FOR A YEAR OR TWO, CONSIDERING THAT MAIN ITEMS ON WHICH AGREEMENT CAN BE REACHED HAVE ALREADY BEEN COVERED, WITH LITTLE SCOPE IN CURRENT SITUATION FOR ADDITIONAL PROGRESS. BANK OF ENGLAND OFFICIAL CONSIDERED THERE MIGHT BE SOME ROOM FOR PROGRESS ON RULES FOR FLOATING. THE NEW COUNCIL OF IMF GOVERNORS MIGHT BE INSTRUCTED, UNDER RULES FOR FLOATING, TO GIVE SPECIAL ATTENTION TO INDICATORS IN AN EXPLORATORY AND TRIAL FASHION, HOPEFULLY INCREASING THEIR IMPORTANCE IN TERMS OF THE COUNCIL'S ASSESSMENTS. NO ONE COULD BE SURE HOW WELL OR EFFECTIVE THIS WOULD BE IN PRACTICE.

3. BANK OF ENGLAND OFFICIAL FELT IT WAS UNFORTUNATE THAT SOME OF THE TECHNICAL INNOVATIONS CONSIDERED BY THE TECHNICAL GROUPS HAD BEEN BYPASSED BY EVENTS. IN THIS CONNECTION, HE CITED ESPECIALLY BANK OF ENGLAND (I.E., SANGSTER'S) SUGGESTION FOR MODIFIED SDR INTERVENTION SYSTEM. ON BALANCE, HOWEVER, BOTH BANK OF ENGLAND AND U.K. TREASURY OFFICIALS CONSIDERED THAT NOT MUCH NEW MATERIAL HAD COME FROM THE WORK OF TECHNICAL GROUPS AND THAT THE DEPUTIES WOULD BE GOING OVER WELL TRODDEN GROUND.

PARTICULAR EC PREPARATION FOR THIS DEPUTIES MEETING. C-20 SUBJECTS HAVE NOT BEEN DISCUSSED MUCH IN EUROPE LATELY IN EC CONTEXT. ONE DIFFICULTY, CITED BY BANK OF CONFIDENTIAL

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ENGLAND SOURCE, IN ATTEMPTING TO ARRIVE AT NEW AGREEMENTS IS THE LACK OF POLITICAL WILL, GIVEN WHAT HE CALLED THE "CURRENT STATE OF EUROPEAN-U.S. RELATIONS." SENIOR MINISTERS HAVE LOST INTEREST IN THE SUBJECT OF MONETARY REFORM IN LIGHT OF OTHER PRIORITIES.

5. ONE SUBJECT WHERE PRIOR EC PREPARATION HAS BEEN TAKING PLACE IS GOLD. IT WILL BE DISCUSSED AT THE IN-

FORMAL EC FINANCE MINISTERS MEETING IN THE NETHERLANDS
ON APRIL 22-23. EC FINANCE MINISTRY REPRESENTATIVES
WILL BE MEETING IN BRUSSELS THIS FRIDAY, MARCH 22, TO

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LIMDIS GREENBACK

CONSIDER AN OPTIONS PAPER IN PREPARATION FOR APRIL
MEETING. THEIR DISCUSSIONS MAY ALSO BE REFLECTED IN C-20
DEPUTIES NEXT WEEK.

6. U.K. TREASURY SAID AGENDA DOCUMENT FOR EC MARCH 22
MEETING NOT YET RECEIVED IN LONDON. IT IS BEING PRE-
PARED BY EC COMMISSION STAFF. U.K.'S POSITION ON GOLD
IS NO INCREASE IN THE OFFICIAL PRICE, NO NET GOLD PUR-
CHASES FROM THE MARKET, NO CENTRAL BANK BUYING AND
SELLING FROM THE MARKET IN A WAY THAT WOULD MANIPULATE
OR REGULATE THE MARKET.

7. U.K. IS PREPARED TO ACCEPT VOLUNTARY SETTLEMENT BY
EC CENTRAL BANKS IN GOLD AT MUTUALLY ACCEPTABLE PRICES,
PRESUMABLY NEAR THE MARKET PRICE. IT IS PREPARED TO SEE
CENTRAL BANKS SELL MONETARY GOLD ON FREE MARKET IF
THEY WISH. U.K. DOES NOT BELIEVE VOLUNTARY TRANSACTIONS

BETWEEN MONETARY AUTHORITIES IN GOLD WOULD LEAD TO A NEW OFFICIAL EC GOLD PRICE. THEY BELIEVE IF SUCH TRANSACTIONS WERE MADE, PRICES WOULD VARY AS REFLECTION OF FREE MARKET PRICES. U.K. WOULD BE WILLING TO AGREE TO SUCH A SYSTEM AND WOULD PROBABLY CONSIDER THAT U.S. REPEAT U.S. WOULD CONFIDENTIAL

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BE WRONG TO THINK THIS FORM OF SETTLEMENT WOULD LEAD TO A SEPARATE OFFICIAL EC GOLD PRICE. U.K. CONSIDERS THAT SOME DECISION ON GOLD PRICE QUESTION MAY BE POSSIBLE BY JUNE WITHIN CONTEXT OF EC OR C-20 MEETINGS. A RELATED PROBLEM IS THAT IF COUNTRIES HOLDING GOLD IN RESERVES ARE ABLE TO GET A HIGHER PRICE FOR IT, THE LESS DEVELOPED COUNTRIES MAY ASK FOR COMPENSATING MEANS OF INCREASING THEIR OWN RESERVES, POSSIBLY THROUGH SDR ALLOCATION.

8. ON OTHERS SPECIFIC POINTS, U.K. TREASURY CONSIDERS THAT C-20 DISCUSSIONS WILL NOT REPEAT NOT CONSIDER WITTEVEEN'S SUGGESTIONS ON IMF FACILITY, THIS BEING SUBJECT WHICH THE EXECUTIVE DIRECTORS OF FUND ARE NOW CONSIDERING. BANK OF ENGLAND CONSIDERS THERE MAY BE CORRIDOR CONVERSATION ON VALUE OF POSSIBLY INTRODUCING SOME GREATER ELEMENT OF FIXITY, I.E., LESS FLUID FLOATING OR MORE INTERVENTION (ALTHOUGH CERTAINLY NOT ANY RETURN TO PAR VALUES) INTO EXCHANGE RATE SYSTEM GIVEN DOMESTIC INFLATIONARY CONSEQUENCES OF FALLING RATES AND NEED TO DEFEND TERMS OF TRADE VIEWED AGAINST HIGHER OIL PRICES. U.K. IS NOT SURE HOW DISCUSSION OF ECG PLEDGE AMONG MAJOR NATIONS TO AVOID BILATERAL CURRENT ACCOUNT MEASURES FOR BALANCE OF PAYMENTS REASONS WILL BE TAKEN UP IN C-20. U.K. APPEARS TO BE LOOKING FOR SOME U.S. LEAD ON THIS POINT.

9. U.K. TREASURY DELEGATES DO NOT DISCERN ANY CHANGE IN U.K.'S INTERNATIONAL MONETARY POLICY AS RESULT OF NEW LABOUR GOVERNMENT. EDMUND DELL, THE NEW PAYMASTER GENERAL, WHO IS CHANCELLOR HEALEY'S DEPUTY, HAS BEEN BRIEFED ON C-20 MEETING. WE UNDERSTAND DEREK MITCHELL HOPES TO HAVE DISCUSSION WITH DELL PRIOR TO MITCHELL'S DEPARTURE FOR THE U.S. ALL INDICATIONS THUS FAR HOWEVER ARE THAT BRITISH POLICY ON C-20 ISSUES IS RELATIVELY BIPARTISAN WITH AGREEMENT ON MAIN POINTS FROM BOTH LABOUR AND CONSERVATIVE PARTIES. SOURCE POINTED OUT THAT SDR HAS HISTORY THAT ENCOMPASSES BOTH MAJOR U.K. POLITICAL PARTIES.

10. ON RELATED POINTS, U.K. HOPES TO BE ABLE TO REDUCE ITS INTEREST RATES. STERLING STRENGTHENED
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RECENTLY BECAUSE OF DOMESTIC INTEREST RATE LEVELS AND PURCHASES BY OIL COMPANIES. ARAB OIL MONEY IS BEGINNING TO SHOW UP IN A NOTICEABLE WAY IN LONDON. NO QUANTITATIVE FIGURES ARE YET AVAILABLE. U.K. CONSIDERS THAT JANUARY OIL PAYMENTS FLOWED HEAVILY TO U.S. AND THEN OUT FROM U.S. INTO MUCH WIDER DIVERSITY OF HOLDINGS. APRIL OIL PAYMENTS, WHICH WILL BE FOR HIGHER PRICED OIL, ARE EXPECTED TO FLOW IN PART INTO STERLING ALTHOUGH AGAIN OUR SOURCES ARE UNABLE OR UNWILLING TO OFFER EVEN ROUGH ESTIMATE ON HOW MUCH. GIVEN THE WIDE RANGE OF INVESTMENT OPPORTUNITIES IN U.K. AND DEPTH OF U.K. CAPITAL MARKET, U.K. TREASURY CONSIDERS THAT LONDON IS THE SECOND BEST ALTERNATIVE FOR ARAB FLOWS AFTER THE U.S. THERE ARE RUMORS IN MARKET THAT HMG IS PUTTING TOGETHER A \$1.5 BILLION EURO ISSUE, WHICH OFFICIAL SOURCES HERE NEITHER CONFIRM NOR DENY. WE ALSO KNOW THAT VARIOUS NATIONALIZED INDUSTRIES ARE ALSO DISCUSSING POSSIBILITY OF TAPPING THE U.S. COMMERCIAL PAPER MARKET.

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